

# City of Saint Paul Minnesota

Comprehensive Annual Financial Report  
For the Fiscal Year Ended  
December 31, 2006



Office of Financial Services  
Matt Smith, Director

**City of Saint Paul**  
**Comprehensive Annual Financial Report**  
For the Fiscal Year Ended December 31, 2006

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CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

# INTRODUCTORY SECTION

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**Office of the Mayor**  
Office of Financial Services

*Matt Smith, Director*



**City of Saint Paul**

*Mayor Christopher B. Coleman*

*700 City Hall  
15 West Kellogg Boulevard  
Saint Paul, Minnesota 55102-1658*

*Telephone: (651) 266-8800  
Facsimile: (651) 266-8541*

June 29, 2007

To the Honorable Mayor, Members of the City Council, and Citizens of Saint Paul:

The City of Saint Paul's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2006 is hereby submitted. The purpose of this report is to provide the Mayor, City Council, City Staff, citizens, bondholders and other interested parties with useful information concerning the City's operations and financial position. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The CAFR is presented in three main sections:

1. Introductory Section - includes this transmittal letter, the City's organizational chart and a list of principal officials.
2. Financial Section - includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, notes to the financial statements and supplementary information.
3. Statistical Section - contains selected financial and demographic information presented on a multi-year basis.

Generally Accepted Accounting Principles (GAAP) require that the City provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Saint Paul's MD&A can be found immediately following the report of the independent auditors.

**INTERNAL CONTROL**

To provide a reasonable basis for making these representations, the City of Saint Paul has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Saint Paul's financial statements in conformity with Generally Accepted Accounting Principles. Because the cost of internal controls should not outweigh their benefits, the City of Saint Paul's comprehensive framework of internal controls has been designed to provide a reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. All internal control evaluations occur within this framework. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

## INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the City and other cities of the first class in Minnesota. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Saint Paul for the fiscal year ended December 31, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the City, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Saint Paul's financial statements for the fiscal year ended December 31, 2006 are fairly presented in conformity with GAAP. The State Auditor's report is presented as the first component of the financial section of this report. As part of their examination, the State Auditor is also issuing a Management and Compliance letter covering the review of the City's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The Management and Compliance letter will not modify or affect, in any way, this report.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit - including the schedule of expenditures of federal awards, findings and recommendations, and auditor's reports on internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts and grants - will be included in the State Auditor's separately-issued Management and Compliance letter.

## PROFILE OF THE GOVERNMENT

The City of Saint Paul has been a municipal corporation since 1854. Saint Paul is the state capital and Minnesota's second largest city. The City covers an area of 56 square miles and is situated wholly in Ramsey County. Saint Paul's 2005 population, per the Metropolitan Council, is 287,385. Data recorded by the Metropolitan Council indicates that the number of households in the City has remained relatively stable, and is 113,587 for 2005, a 3.0% increase from 1990.

The City of Saint Paul, Minnesota has a Mayor-Council form of government. The Mayor is elected by the voters of the City at large for four years on a full-time basis. The City is divided into seven wards. Voters of each ward elect a member of the City Council for four years on a part-time basis. Executive power is vested in the Mayor; legislative power is vested in the Council. The Mayor has veto power, which the Council may override with a vote of five members.

City services include: police, fire, street, sewer and bridge maintenance, parks and recreation centers, libraries, licensing, building and housing code inspections, planning and economic development, zoning, public improvements and general administration.

## REPORTING ENTITY

The City's financial statements include all funds of the City (primary government) and its component units. The primary government represents all funds under the ultimate control of the Mayor and City Council. The Library Agency and Housing and Redevelopment Authority (HRA) are legally separate; however they both function in essence as a department of the City of Saint Paul and, therefore, have been included as an integral part of the City of Saint Paul's financial statements. The City of Saint Paul is also financially accountable for the legally separate Saint Paul RiverCentre Convention & Visitors Authority, Saint Paul Regional Water Services and the Port Authority of the City of Saint Paul, all of which are reported separately as component units within the City of Saint Paul's financial statements. The nature of the activities of these organizations and the specific justification and methods for inclusion as component units of the City are discussed in the notes to the financial statements.

## BUDGET CONTROL

The annual budget serves as a foundation for the City of Saint Paul's financial planning and control. In August of each year, the Mayor presents the budget to the City Council for the following calendar year. The budget includes proposed expenditures and means of financing them. The Council then holds a public hearing to obtain taxpayer comments. The budget is legally adopted through the passage of a Council resolution.

City budget amendments that authorize an increase in total fund spending require approval of the City Council. In addition, City Council approval is required for budget amendments transferring appropriations between departments within the General Fund.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Library Agency and the HRA General Fund, this is presented on pages 139-141 as part of the required supplementary comparison information. For other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 150.

## ECONOMIC OUTLOOK

Saint Paul is an important part of the overall strong Twin Cities metro area economy.

Saint Paul compares favorably when ranked among the 20 largest northeast and midwest cities on certain economic and social factors<sup>1</sup>.

- 2<sup>nd</sup> lowest in unemployment rate
- 5<sup>th</sup> lowest in percent of people below poverty level (18.6%)
- 4<sup>th</sup> highest in percent of population over 25 years with a bachelor's degree (21.7%)
- 5<sup>th</sup> highest in percent of occupied housing units (91.3%)
- 4<sup>th</sup> highest in percent of housing that is owner occupied (58.9%)
- 6<sup>th</sup> highest in median value of owner-occupied houses (\$200,100)
- The highest in median household income (\$44,103)
- 2<sup>nd</sup> highest in median family income (\$55,606)
- 5<sup>th</sup> highest in per capita income (\$23,541)

Over the years, Saint Paul has consistently registered a lower unemployment rate than that of the U.S. as a whole. For 2006, the City's 4.1% unemployment rate was lower than the U.S. rate of 4.6%. Saint Paul's employment is spread among twelve "super-sectors," with the largest employers being health care and social assistance (33,559 jobs in 2005; 18.7% of the total).

Similarly, tax base growth has been strong and sustained: From Pay 2002 to Pay 2007, Saint Paul's taxable market values have increased 67%. Relatively high incomes and moderate housing costs combine to rank Saint Paul comparatively high in overall housing affordability. The City anticipates this growth to continue. Based on estimates provided by Ramsey County, the percent change in taxable value from Pay 2007 to Pay 2008 is expected to be 9% for residential and 11% for commercial and industrial property.

Vacancy rates decreased from 7% to 4% in Saint Paul's rental market between 2004 and 2006. Rental rates increased by 7% between 2001 and 2006 for one bedroom apartment units and by 11% for two bedroom units. Office rental rates are stable, – with no change since 2004. Total occupied office space has grown 8% from 2005 to 2006. This is an annual record increase.

Saint Paul sales and use tax and hotel motel tax revenues have grown by 3% between 2005 and 2006.

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<sup>1</sup> The cities are Baltimore, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Columbus, Detroit, Indianapolis, Kansas City, Milwaukee, Minneapolis, New York, Newark, Omaha, Philadelphia, Pittsburgh, St. Louis and Toledo.



## MAJOR INITIATIVES

To maintain this economic growth, the City will continue to develop and implement strategic plans to encourage private investment in housing and economic development projects in Saint Paul.

Two major foundations for economic development activities have been set during 2007:

### City Strategic Plan

A new strategic vision for the City was developed by the Mayor's administration in consultation with other stakeholders. To support a vision of Saint Paul as the most livable city in America, it identifies 6 strategic goals:

**Ready for School, Ready for Life:** Education is core to the quality of life in our great City. Saint Paul will strive to ensure that learning opportunities are quality-driven and accessible for all. We will work to leverage City and community resources, building on the strengths of our people. Saint Paul will work in concert with its many education resources: our world-class public, private and charter schools; premier colleges and universities; libraries; and a network of informal learning institutions. Education will be at the forefront of closing the gap between the "haves" and "have-nots."

**Safe Streets and Safe Homes:** A sense of security on our sidewalks and in our homes is essential to our City's quality of life. This feeling of safety comes from a strong sense of community and confidence in our exceptional public safety system. Our residents know that safety comes first in Saint Paul and have come to expect that our world-class police and fire departments will deliver the best possible emergency services quickly and equitably.

**Expanding Economic Opportunity:** Saint Paul is at the heart of state and regional government, health care industries, bio-science/medical development and the arts community. We will build our economic future on the foundation of the City's strengths—a well-educated citizenry, safe neighborhoods, a diverse and affordable housing mix, sound infrastructure, and local businesses rich with growth potential. Saint Paul will invest in supporting our homegrown entrepreneurs and our small and mid-sized businesses within the fabric of our community. We will also work to continue and expand the presence of large businesses who embrace the tradition of engaged corporate citizenry. While aggressively pursuing more commerce in our community, we will be strong stewards of our historic structures, which are continual reminders of our City's foundation. We will continue with inclusive, responsible community planning efforts to ensure our development work is reflective of the community's vision.

**Healthy Communities = Healthy Living:** Saint Paul will be a leader in sustainable urban living by "acting locally" to help reverse the negative effects of global warming. Environmental stewardship must start at home. We will implement the vision of the National Great River Park by focusing development on a more natural, more urban and more connected Saint Paul. Our healthy community will encourage healthy lifestyles. The health and welfare of our community and our residents will help attract and retain quality businesses and a quality workforce.

**Quality Infrastructure:** Saint Paul's mission to become the most livable City in America is grounded in our assets and infrastructure. The principles of sound infrastructure, quality public amenities and proactive environmental stewardship will guide our work.

**The Soul of Saint Paul:** The soul of Saint Paul can be experienced within our neighborhoods and among our diverse people. We will enhance the spirit of our City to fuel our economic vitality. We will capitalize on Saint Paul's national leadership in civic health by strengthening our neighborhood engagement. We will work to expand access to exciting parks, cultural institutions, vibrant music and artistic brilliance. We will use technology to connect residents and visitors to the great character of our City.

## **Invest St. Paul Initiative**

Invest St. Paul is a collaborative effort to strategically channel City and private resources into revitalization strategies and redevelopment projects in four strong neighborhoods being challenged by recent economic and social downturns and persistent disinvestment: Dayton's Bluff, Lower Eastside, Frogtown and North End neighborhoods. These neighborhood communities still offer growth opportunities and have been targeted based on their current and potential assets.

Invest St. Paul is conceived as an initiative, not a program, to retool for the long-term how the City of Saint Paul approaches revitalization in targeted neighborhoods. It is envisioned to operate by coordinating City resources, jumpstarting physical development, forging partnerships, and engaging residents in neighborhood visioning and improvement. Intended to catalyze reinvestment and resilience in targeted areas

**Objectives:** To galvanize resources: time, talent, and money into four neighborhoods poised to prosper after prolonged periods of disinvestment. To support residents as key customers capable of contributing to decisions about their neighborhood's future. To illustrate that today's investments will yield positive returns for the entire portfolio of neighborhoods that make up the City of Saint Paul.

**Indicators and Outcomes:** Invest St. Paul initiatives will concentrate on a strategic combination of activity around: jobs and economic development, youth and family, quality of life, and physical development. The anticipated outcome is vitality measured in improved infrastructure and involved individuals – the visible signs of healthy neighborhoods.

## **MAJOR DEVELOPMENTS**

### **Central Corridor**

The Central Corridor runs along University Avenue from the State Capitol to Minneapolis. It has attracted significant investment in the past few years, and stands to attract more in the future if Light Rail Transit (LRT) is developed on University Avenue, a final decision on which is expected in the next couple of years. The Environmental Impact Statement has been completed and approved, and the state and federal governments have approved funding for preliminary engineering, which Ramsey County has begun. Anticipating major redevelopment from the construction of the second LRT system in the region, the City of Saint Paul has begun multi-year land-use planning for the Central Corridor. Two task forces have been appointed by the Planning Commission to develop a vision and development strategy for University Avenue and the Capitol/Downtown area.

### **Fort Road**

Also called West Seventh Street, Fort Road runs southwest from the downtown to Fort Snelling, parallel to the Mississippi River. At the Gateway Village across from Fort Snelling at the southwestern gateway to Saint Paul, 578 units of new rental and ownership housing are now complete. At the western edge of the downtown, United and Children's Hospitals are nearing the end of their decade-long expansion. Two new clinics specializing in heart care, and new parking ramps, have been completed in the past 5 years at Smith and Chestnut, boosting overall employment at the two hospitals to over 4,700. At Randolph and West Seventh Street, construction on the \$13 million United Family Practice Health Center is expected to begin this summer.

### **Phalen Corridor**

Formerly a blighted and underutilized industrial corridor served by railroads, the Phalen Corridor runs northeast from downtown to the Phalen Village neighborhood. The last section of the new 2.5-mile, \$61 million Phalen Boulevard opened last fall. It is the first new road built in Saint Paul in more than 20 years, and it gives the East Side direct access to Interstate 35E. At the east end of Phalen Boulevard is Phalen Village, with a new \$60 million building for the State Bureau of Criminal Apprehension and over \$50 million in more than 400 units of new and rehabilitated housing adjacent to a repositioned commercial center, in which a new Cub supermarket is being developed. At the west end of Phalen Boulevard are the Williams Hill Business Center, the Metro Transit bus barns, and the Westminster Junction Business Center, which together provide almost 1,500 new jobs developed on former brownfields that used to provide only about 50 jobs.

## **Downtown District**

The downtown district extends from the State Capitol campus on the north to the West Side Flats across the river. The \$25 million Smith Avenue Transit Center adjacent to the Xcel Arena, with a bus layover facility and parking for 600 cars, is almost complete. Important headquarters companies have expanded downtown including the Saint Paul Companies, Minnesota Mutual, and Ecolab. Regions Hospital has begun a \$150 million hospital expansion project, with completion of the 10-story medical tower and parking ramp anticipated in 2009, and St. Joseph's \$96 million expansion is underway.

## **Housing**

Five years ago, with vacancy rates hovering around 1%, the City established the *Housing 5000 Program* to accelerate housing development. When the *Housing 5000 Program* ended on December 31, 2005, it had exceeded its goals. Instead of 5,000 new or substantially rehabilitated housing units, the construction financing for 5,370 units had closed. And, instead of leveraging the investment of \$1 billion, the Program had leveraged \$1.059 billion, 84% of which came from private sources. As part of its *Housing 5000* goals, the City also established the goal that the construction financing for 1,000 new or substantially rehabilitated units of affordable housing would close before December 31, 2005. When the Program ended, construction financing had closed for 1,173 affordable units, 600 of them affordable to families at or below 30% of Area Median Income (AMI), and 573 affordable to families between 31% and 50% of AMI.

## **CASH AND INVESTMENT MANAGEMENT**

Cash balances during the year were invested in U.S. Treasuries, Agencies of the Federal Government, commercial paper, certificates of deposit, municipal securities, money market funds and guaranteed investment contracts, in accordance with Minnesota State Statute 118A and the City's Investment Policy. A new investment policy was adopted by the City Council in July 2003 to improve management of the City's investment portfolio. The investment policy's goal is to preserve safety by minimizing credit and market risks, while ensuring liquidity and maintaining a competitive yield on the portfolio.

The City has contracted investment management services with five external managers to manage a portion of the portfolio. As of December 31, 2006, the effective yield on the portfolio was 4.46% and reported interest on investments was \$8.8 million. All securities purchased by the City are held by a third party safekeeping agent in the City's name.

## **DEBT MANAGEMENT**

The City of Saint Paul partners with Ramsey County and Independent School District #625 (Saint Paul Public Schools) as members of the Joint Property Tax Advisory Committee (JPTAC). The JPTAC, created by Minnesota law, is charged with the obligation to reduce the overall tax burden on the citizens of Saint Paul. The Joint Debt Advisory Committee (JDAC), a subcommittee of JPTAC, is charged with overseeing and reporting to the public on joint debt activities. This group evaluates compliance by the jurisdictions within the adopted target ranges for satisfactory debt management and releases its findings in the Joint Debt Book, which is published every two years.

The City of Saint Paul's overall general obligation debt, adjusted to inflation, decreased 4.1% from 2005 to 2006. The major debt position indicators fall into average or below average range according to the Standard & Poor's ranges for Cities with population over 150,000.

The City maintained its AAA bond rating from Standard & Poor's and Aa2 bond rating from Moody's due to strong management and financial performance. Approximately 70 cities nationwide have an AAA rating with Standard & Poor's and only 7% of the municipalities nationwide have a higher rating with Moody's than the City of Saint Paul.

## **RISK MANAGEMENT**

The City has a centralized Risk Management Division within the Office of Human Resources that provides direction, management, coordination and planning services for risk, insurance and employee benefit programs. The risk management effort covers significant loss exposures, applies effective and reasonable risk controls and suggests funding arrangements for both insured and self-funded risks to ensure that the financial integrity of the City is not impaired after a loss.

The Risk and Management Division also provides administrative and management services in the areas of health and welfare benefits, tort liability, workers= compensation, occupational health, loss control and safety, emergency preparedness, contract review and property insurance. Additional information on the City of Saint Paul's risk management activities can be found in Note VIII. C. of the notes to the financial statements.

## **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Saint Paul, Minnesota for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2005. This was the 30<sup>th</sup> consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently-organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

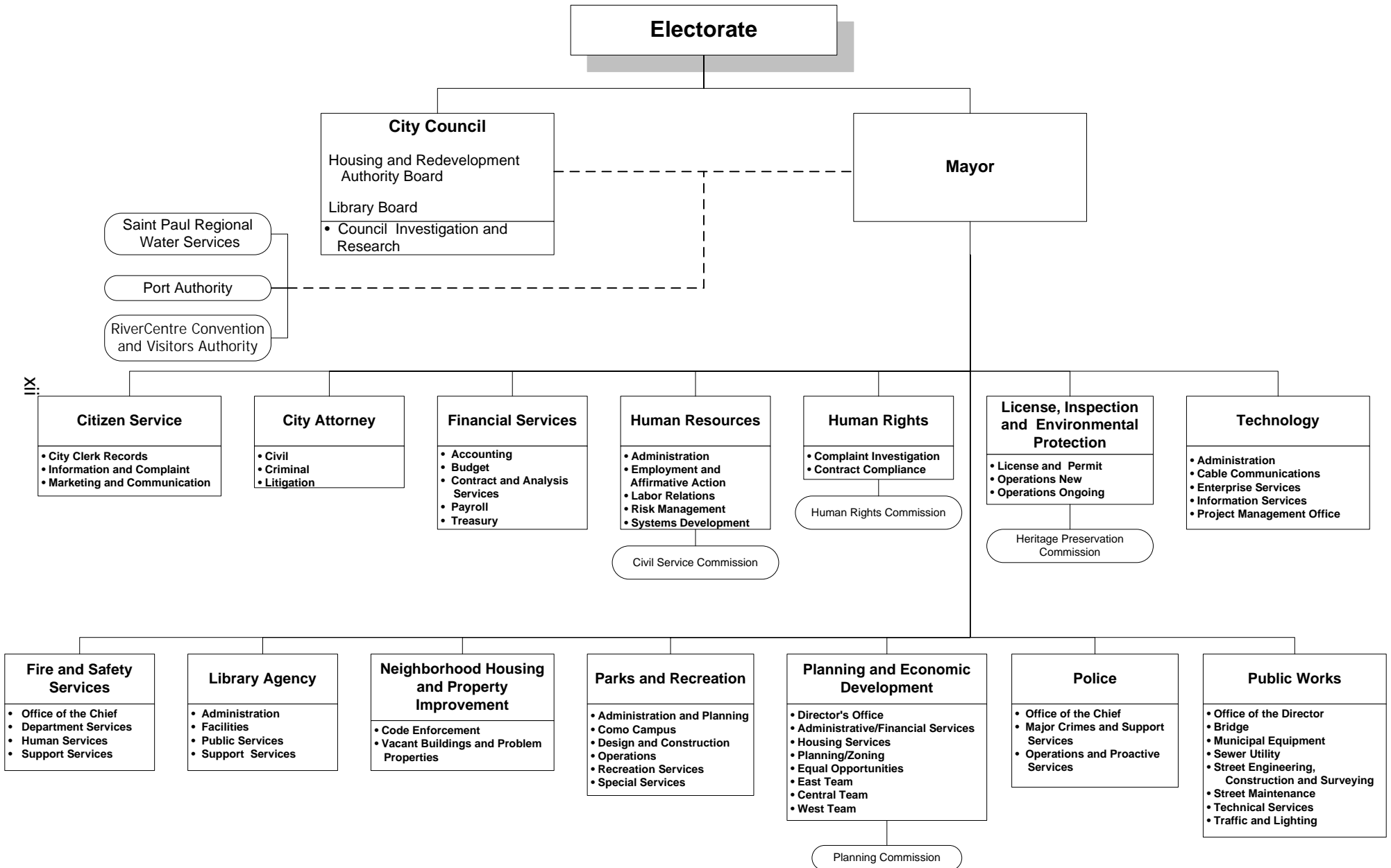
The preparation of the 2006 Comprehensive Annual Financial Report was accomplished through the combined efforts of the Office of Financial Services' accounting staff and departmental accountants. The State Auditor's cooperation in scheduling staff to review statements as they were prepared was very helpful and appreciated.

Cordially,

A handwritten signature in black ink, appearing to read "Matt Smith", with a stylized flourish at the end.

Matt Smith, Director  
Office of Financial Services

# City of Saint Paul, Minnesota Organizational Chart



**City of Saint Paul, Minnesota**  
**Elected and Appointed Officials**  
**As of December 31, 2006**

**Elected Officials**

<b>Office</b>	<b>Name</b>	<b>Term Expires</b>
Mayor	Christopher B. Coleman	January 1, 2010
Councilmember—Ward 1	Debbie Montgomery	January 1, 2008
Councilmember—Ward 2	Dave Thune	January 1, 2008
Councilmember—Ward 3	Patrick Harris	January 1, 2008
Councilmember—Ward 4	Jay Benanav	January 1, 2008
Councilmember—Ward 5	Lee Helgen	January 1, 2008
Councilmember—Ward 6	Dan Bostrom	January 1, 2008
Councilmember—Ward 7	Kathy Lantry	January 1, 2008

**Appointed Officials**

<b>Department/Division/Office</b>	<b>Director's Name</b>	<b>Term Expires</b>
Citizen Services	Shari Moore	*
City Attorney	John Choi	*
Financial Services	Matt Smith	*
Fire and Safety Services**	Douglas Holton	August 18, 2009
Human Rights	Tyrone Terrill	*
Human Resources	Angela Nalezny	*
Library Agency	Melanie Huggins	*
*License, Inspection and Environmental Protection	Bob Kessler	*
Mayor's Chief of Staff	Ann Mulholland	*
*Neighborhood Housing and Property Improvement	Bob Kessler	*
Parks and Recreation	Bob Bierscheid	*
Planning and Economic Development	Cecile Bedor	*
Police	John Harrington	June 30, 2010
Public Works	Bruce Beese	*
Technology	Andrea Casselton	*
Saint Paul Regional Water Services	Stephen Schneider	*

\* Serves at the pleasure of the Mayor.

\*\* In May 2007, Mayor Coleman appointed Bob Morrison as Acting Fire Chief.

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saint Paul  
Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL  
SECTION

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REBECCA OTTO  
STATE AUDITOR

## STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

The Honorable Christopher B. Coleman, Mayor,  
and Members of the City Council  
City of Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 2 percent, less than 1 percent, and 16 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 27 percent, 12 percent, and 21 percent, respectively, of the assets, net assets, and program revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

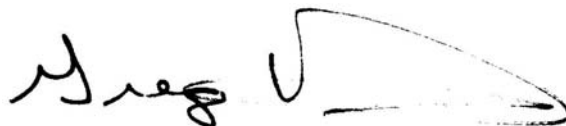
The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Saint Paul's basic financial statements. The supplementary information and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we are also issuing a report dated June 27, 2007, on our consideration of the City of Saint Paul's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the Saint Paul RiverCentre Convention and Visitors Authority or the Port Authority of the City of Saint Paul, which were audited by other auditors.



REBECCA OTTO  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 27, 2007

CITY OF SAINT PAUL  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

# FINANCIAL SECTION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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As management of the City of Saint Paul, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the City's financial statements and the additional information that we have furnished in our letter of transmittal, which can be found on pages v-xi of this report.

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### FINANCIAL HIGHLIGHTS

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- The assets of the City of Saint Paul exceeded its liabilities at the close of the most recent fiscal year by \$1,243.5 million (*net assets*). Of this amount, \$95.9 million (*unrestricted net assets*) may be used to meet the government's obligations to citizens and creditors; \$31.0 million is restricted for specific purposes and \$1,116.6 million is invested in capital assets net of related debt. The total net assets include all major infrastructure networks.
- The City's total net assets decreased by \$3.95 million. Governmental activities decreased by \$3.0 million and business-type activities decreased by \$910,000.
- The City of Saint Paul's governmental funds reported combined ending fund balances of \$167.4 million, a decrease of \$22.7 million in comparison with the prior year. Approximately 86.5% of this amount, \$144.8 million, is unreserved and available for use within the City's designations and policies.
- The City adopted a fund balance policy for the General and General Debt Service Funds. The policy established specific goals and guidance for future decisions regarding the appropriate level and use of fund balance. The General Fund balance should be maintained at 15% of the next year's planned budget for the General Fund and part of the Library Agency Fund which is financed by property taxes and local government aid. The General Debt Service fund balance should maintain an amount equal to the first half of the subsequent year's debt service, plus 7.5%, in addition to any reserves required by bond indentures, covenants, ordinances, other debt obligations and any net unrealized gains or losses associated with the fair value of investments.
- At the end of the fiscal year, fund balance for the General Fund was \$30.3 million, an increase of \$3.0 million. The City is in compliance with the Fund Balance Policy. The General Fund balance is 16.3% of the budgeted 2007 General Fund expenditures of \$171.9 million plus the Library Agency general activities expenditures of \$13.9 million.
- At the end of the fiscal year, fund balance for the General Debt Service Fund was \$19.8 million or 91% of the 2007 budgeted annual debt service payments, which includes principal and interest of \$21.7 million.
- The City's total long-term bonds and notes decreased by \$22.7 million, a 4.1% decrease from 2005 for a total outstanding on December 31, 2006 of \$535.1 million.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, health, culture and recreation, and housing and economic development. The business-type activities of the City of Saint Paul include sewer; development loan programs; parking; parks, recreation and athletics; impound lot; and printing.

The government-wide financial statements include not only the City of Saint Paul itself (known as the primary government), but also Saint Paul RiverCentre Convention & Visitors Authority (RCVA), Saint Paul Regional Water Services (SPRWS) and Port Authority of the City of Saint Paul, which are separate legal entities for which the City of Saint Paul is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Housing and Redevelopment Authority of the City of Saint Paul (HRA) and the Saint Paul Library Agency, although legally separate, function for all practical purposes as departments of the City of Saint Paul; and therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 25-27 of this report.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

*Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 51 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Library Agency, HRA General, General Debt Service, HRA General Debt Service and Capital Improvement Projects funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 28-34 of this report.

*Proprietary Funds* – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Sewer Utility, HRA Loan Enterprise, HRA Parking, Special Services, Rice and Arlington Sports Dome, Watergate Marina, Impounding Lot and RiverPrint Saint Paul/Ramsey County activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for City Attorney-Outside Services, Risk Management Retention, Internal Borrowing, Purchasing's Value Added Services, Information Systems, City-Wide Data Processing, Equipment Services Fire-Police, Public Works Engineering, Public Works Traffic, Signal and Lighting Maintenance, Asphalt Plant, Public Works Equipment, Public Works Administration, Parks and Recreation Special Projects, Parks and Recreation Supply and Maintenance, and Planning and Economic Development Administration. The services provided by these funds predominately benefit the governmental rather than the business-type functions. They have been included within governmental activities in the government-wide financial statements.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Utility, HRA Loan Enterprise and HRA Parking funds, since they are considered to be major funds of the City. Data from the other enterprise funds are combined into a single aggregated presentation. All internal service funds are combined into a separate single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 35-41 of this report.

*Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 43 of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-138 of this report.

### Other Supplementary Information

In addition to the basic financial statements and accompanying notes, *Required Supplementary Information*, presents a detailed budgetary comparison schedule for the General Fund, Library Agency and the HRA General Fund to demonstrate compliance with the budget. These schedules can be found on pages 139-142 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds, proprietary funds, internal service funds and other information related to the individual funds are presented immediately following the required supplementary information. Combining and individual statements and schedules can be found on pages 148-204 of this report.



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The analysis of the City's financial position begins with a review of the *Statement of Net Assets* and the *Statement of Changes in Net Assets*. These two statements report the City's net assets and changes therein. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Saint Paul, assets exceeded liabilities by \$1,243.5 million as of December 31, 2006. The City is able to report positive balances in all categories of net assets, for the government as a whole, as well as for its separate categories – governmental and business-type activities.

### CONDENSED STATEMENT OF NET ASSETS

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
Current and Other Assets	\$ 429,570	\$ 458,035	\$ 147,052	\$ 162,649	\$ 576,622	\$ 620,684	(7.10)%
Capital Assets	1,109,240	1,096,618	355,403	353,124	1,464,643	1,449,742	1.03%
Total Assets	\$1,538,810	\$1,554,653	\$ 502,455	\$ 515,773	\$2,041,265	\$2,070,426	(1.41)%
Long-Term Liabilities	\$ 455,551	\$ 462,648	\$ 146,459	\$ 159,615	\$ 602,010	\$ 622,263	(3.25)%
Other Liabilities	185,257	190,959	10,507	9,759	195,764	200,718	(2.47)%
Total Liabilities	\$ 640,808	\$ 653,607	\$ 156,966	\$ 169,374	\$ 797,774	\$ 822,981	(3.06)%
Net Assets:							
Invested in Capital Assets, Net of Related Debt	\$ 873,833	\$ 844,290	\$ 242,733	\$ 241,242	\$1,116,566	\$1,085,532	2.86%
Restricted	13,395	16,618	17,621	22,967	31,016	39,585	(21.65)%
Unrestricted	10,774	40,138	85,135	82,190	95,909	122,328	(21.60)%
Total Net Assets	\$ 898,002	\$ 901,046	\$ 345,489	\$ 346,399	\$1,243,491	\$1,247,445	(0.32)%

The largest portion of the City's net assets, \$1,116.6 million (approximately 89.8%), reflects its investments in capital assets (e.g., land, building, improvements, equipment, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$31.0 million (approximately 2.5%), represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$95.9 million, may be used to meet the government's ongoing obligation to citizens and creditors.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended December 31, 2006. Overall, both the governmental and business type activities revenue and expenses remained stable. Governmental activities decreased the City of Saint Paul's net assets by \$3.0 million. Business-type activities decreased the City's net assets by \$910,000. Compared to last year's change in net assets, the governmental activities experienced an increase of \$13.8 million and the business type activities incurred a decrease of \$11.7 million.

### CONDENSED STATEMENT OF CHANGES IN NET ASSETS

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program Revenues							
Charges for Services	\$ 89,920	\$ 88,124	\$ 66,636	\$ 66,035	\$ 156,556	\$ 154,159	1.55%
Operating Grants and Contributions	29,672	32,976	1,316	488	30,988	33,464	(7.40)%
Capital Grants and Contributions	16,944	26,385	6,239	900	23,183	27,285	(15.03)%
General Revenues							
Property Taxes	77,548	71,859	1,397	1,372	78,945	73,231	7.80%
City Sales Tax	14,789	14,220	-	-	14,789	14,220	4.00%
Franchise Fees and Other Taxes	24,697	24,427	-	-	24,697	24,427	1.11%
Local Government Aid	59,545	53,206	-	-	59,545	53,206	11.91%
Grants and Contributions Not Restricted	10,038	10,569	-	-	10,038	10,569	(5.02)%
Investment Income	16,133	10,662	2,957	1,848	19,090	12,510	52.60%
Gain on Sale of Capital Assets	1,774	-	71	-	1,845	-	100.00%
Miscellaneous	4,405	5,551	4,013	626	8,418	6,177	36.28%
Total Revenues	\$ 345,465	\$ 337,979	\$ 82,629	\$ 71,269	\$ 428,094	\$ 409,248	4.61%

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

#### CONDENSED STATEMENT OF CHANGES IN NET ASSETS

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
Expenses:							
General Government	\$ 32,449	\$ 32,569	\$ -	\$ -	\$ 32,449	\$ 32,569	(0.37)%
Public Safety	132,379	126,073	-	-	132,379	126,073	5.00%
Highway and Streets	50,495	52,527	-	-	50,495	52,527	(3.87)%
Sanitation	11,583	12,444	-	-	11,583	12,444	(6.92)%
Health	3,635	3,892	-	-	3,635	3,892	(6.60)%
Culture and Recreation	65,014	66,028	-	-	65,014	66,028	(1.54)%
Housing and Economic Development	42,549	44,280	-	-	42,549	44,280	(3.91)%
Interest and Fiscal Charges	30,245	26,161	-	-	30,245	26,161	15.61%
Sewer	-	-	26,355	23,964	26,355	23,964	9.98%
Development Loan Programs	-	-	17,396	7,117	17,396	7,117	144.43%
Parking	-	-	11,495	10,508	11,495	10,508	9.39%
Parks, Recreation and Athletics	-	-	4,772	5,996	4,772	5,996	(20.41)%
Impound Lot	-	-	2,402	2,479	2,402	2,479	(3.11)%
Printing	-	-	1,279	1,231	1,279	1,231	3.90%
Total Expenses	\$ 368,349	\$ 363,974	\$ 63,699	\$ 51,295	\$ 432,048	\$ 415,269	4.04%
Increases in Net Assets before Transfers	\$ (22,884)	\$ (25,995)	\$ 18,930	\$ 19,974	\$ (3,954)	\$ (6,021)	(34.33)%
Transfers	19,840	9,127	(19,840)	(9,127)	-	-	
Change in Net Assets	\$ (3,044)	\$ (16,868)	\$ (910)	\$ 10,847	\$ (3,954)	\$ (6,021)	(34.33)%
Net Assets - January 1, As Restated (Note III.C)	\$ 901,046	\$ 917,914	\$ 346,399	\$ 335,552	\$1,247,445	\$1,253,466	(0.48)%
Net Assets - December 31	\$ 898,002	\$ 901,046	\$ 345,489	\$ 346,399	\$1,243,491	\$1,247,445	(0.32)%

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

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#### Governmental Activities

Governmental activities decreased the City's net assets by \$3.0 million. Revenues increased by \$7.5 million, or 2.2% and Transfers In increased by \$10.7 million. Expenses increased by \$4.4 million, or 1.2% compared to the previous year.

Program expenses increased \$4.4 million. Two governmental functions contributed to the majority of the increase in expenses: public safety, \$6.3 million and interest and fiscal charges, \$4.1 million. The remaining governmental functions decreased.

Included in the increase in these expenses are:

- Salaries and fringe benefits paid to public safety personnel \$5.5 million
- Expenses related to securities lending transactions \$2.7 million
- Interest expense for notes issued for development in the tax increment districts \$2.1 million

#### Business -Type Activities

Business type activities experienced a decrease in net assets of \$910,000.

Revenues increased in 2006 by \$11.4 million. A majority of this increase came from capital contributions of an additional \$5.3 million, which came from Federal grants totaling \$6.2 million received for the construction of the Smith Avenue Transit Hub. Miscellaneous revenue increased \$3.4 million from a reimbursement received from the Metropolitan Council Environmental Services in the amount of \$4.0 million to level sewer charges and credits owed to the City.

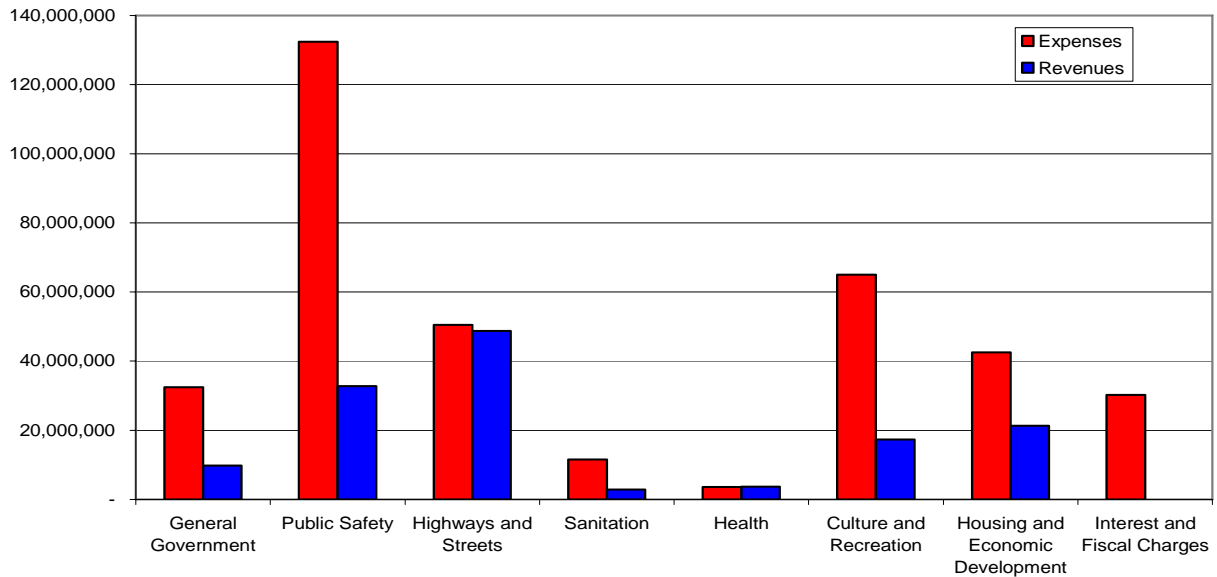
Business type expenses increased by \$12.4 million in 2006. Development and loan programs reported \$17.4 million of expense, an increase of \$10.3 million from 2005. This was a result of an increase in bad debt expense of \$5.5 million because several large development loans issued were risk rated as a loss; a forgivable loan expense increase of \$3.1 million, for development loans that were risk rated forgivable and a loss on sale the Science Museum loan of \$1.6 million to the City.

# CITY OF SAINT PAUL, MINNESOTA

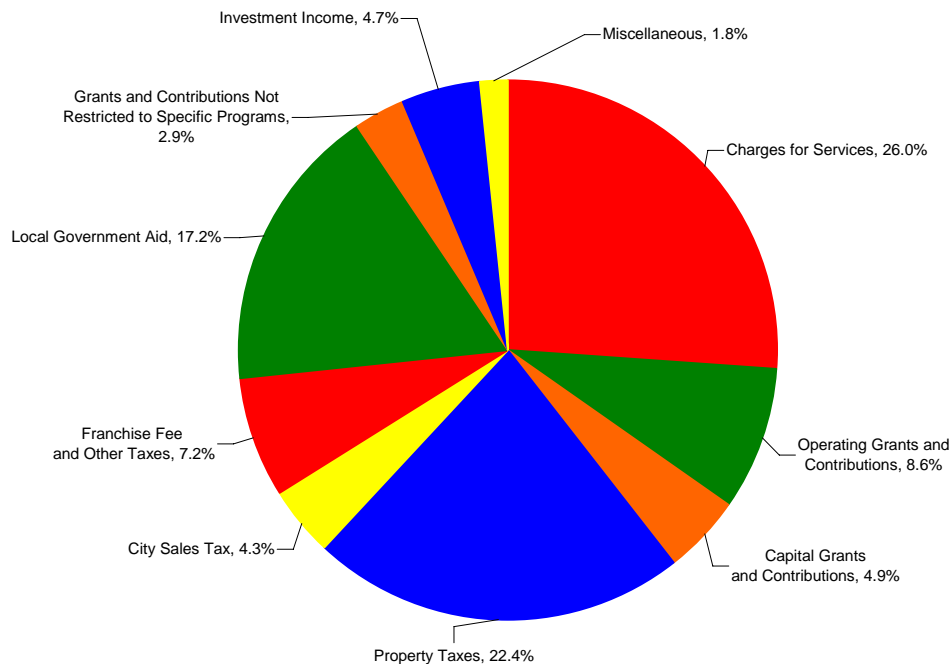
## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

#### Expenses and Program Revenues – Governmental Activities



#### Revenue by Source – Governmental Activities

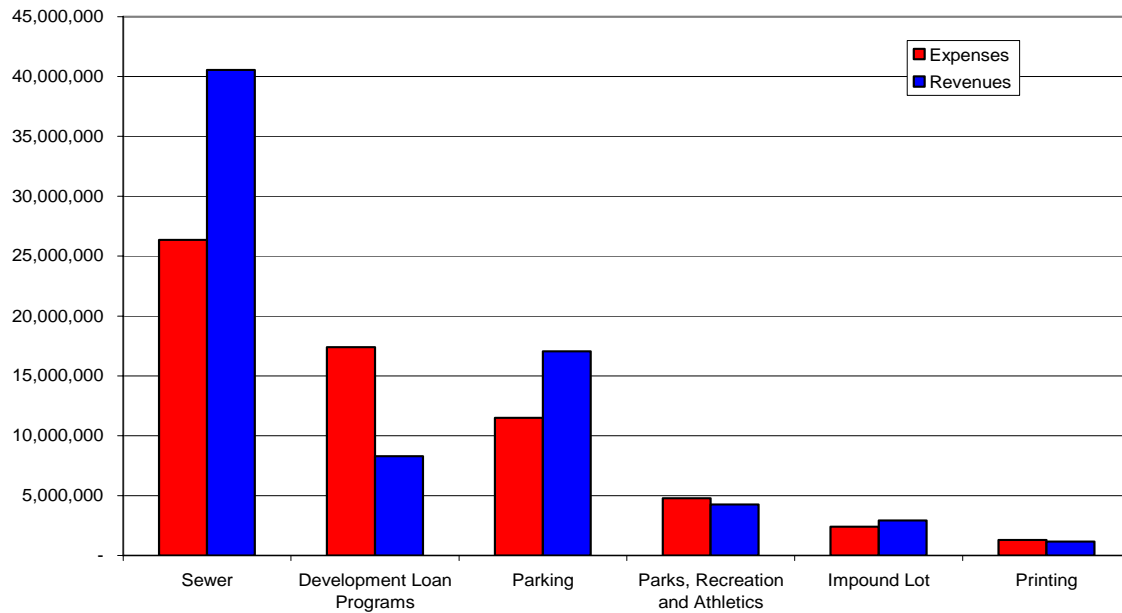


# CITY OF SAINT PAUL, MINNESOTA

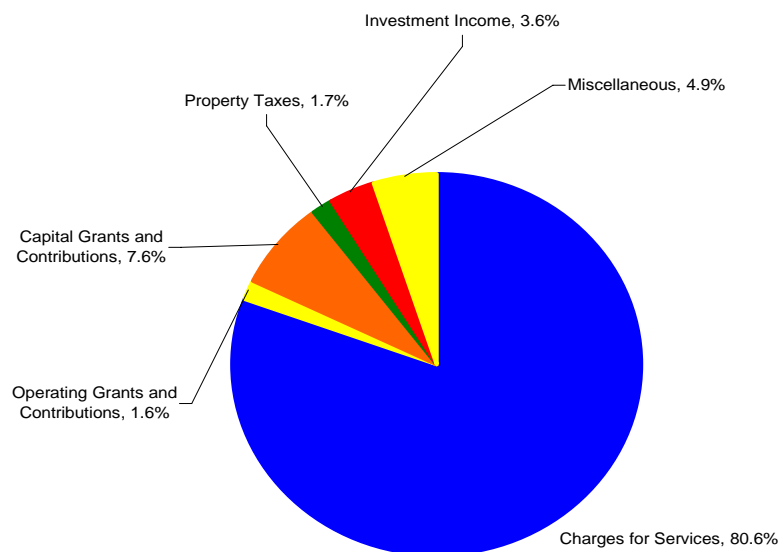
## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

#### Expenses and Program Revenues – Business-type Activities



#### Revenues by Source – Business-type Activities



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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#### Governmental Funds

The focus of the City of Saint Paul's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of current fiscal year, the City of Saint Paul's governmental funds reported combined ending fund balances of \$167.4 million. Approximately 86.5% of this total amount (\$144.8 million) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending, because it has already been committed to pay for:

	(in thousands)
Encumbrances	\$ 17,551
Imprest Funds	100
Advances to Other Funds	1,214
Advance to Component Unit	1,756
Long-Term Receivable	260
Mandatory 5% for Debt Retirement	1,122
Revenue Shortfalls and Unforeseen Expenditures	543
Permanent Funds' Activities	35
	<hr/>
	\$ 22,581
	<hr/>

Of the \$144.8 million unreserved fund balance, the use is available for specific purposes in which these funds were collected.

	(in thousands)
General Fund	\$ 27,005
Special Revenue Funds	42,750
Debt Service Funds	56,421
Capital Projects Funds	18,638
Permanent Funds	30
	<hr/>
Total	\$ 144,844
	<hr/>

**General Fund:** The General Fund is the primary operating fund of the City. Total fund balance as of December 31, 2006, was \$30.3 million, of which \$27 million was unreserved. It may be useful to compare unreserved fund balance to total fund balance and total fund expenditures as a measure of the fund's liquidity. Unreserved fund balance represents 89.2% of total fund balance and 15.5% of total 2006 fund expenditures including transfers out. The fund balance increased by \$3 million during the current fiscal year.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following tables provide an overview of General Fund revenues by source and expenditures by function.

Revenues by Source	2006	2005	Total Percent Change
Property Tax	\$ 46,014,519	\$ 42,990,712	7.03%
Franchise Fees and Other Taxes	19,369,250	19,382,849	(0.07)%
Intergovernmental	63,746,052	57,473,669	10.91%
Fees, Sales and Services	15,828,606	15,351,211	3.11%
Interest	10,221,265	6,388,142	60.00%
Miscellaneous	1,056,559	1,327,428	(20.41)%
Transfers In	19,692,272	13,381,951	47.16%
Sale of Capital Asset	1,413,257	69,968	1919.86%
Capital Lease	-	1,000,000	(100.00)%
Total	<u>\$ 177,341,780</u>	<u>\$ 157,365,930</u>	12.69%

Overall, General Fund revenues have increased by \$20 million or 12.7% as compared to 2005.

In 2006, property tax revenue has increased by \$3.0 million. The General Fund's portion of the levy was increased by \$1.6 million, which represents 73.2% of the total levy. The City's total property tax levy of \$64.5 million is allocated between the General, General Debt and Library Agency Funds. The levy increased \$1.9 million or 3.1% after being held constant for twelve consecutive years prior to this. Also, additional property tax revenue was received from the decertification of a tax increment district.

Intergovernmental revenue increased by \$6.3 million. After three years of reduction in Local Government Aid (LGA), which totaled \$22.6 million, the State Legislature provided an increase of \$6.4 million.

Fees, sales and services increased by \$477,395.

Interest earnings increasing by \$3.8 million is mainly associated with security lending transactions. Interest earnings on the collateral received are reported on the operating statement as Interest Earned on Securities Lending. The costs of securities lending transactions are not netted with interest revenue. Borrower rebates are reported on the operating statement as Interest Expenditures on Securities Lending and the bank fees are included in Miscellaneous-Other Expenditures. For fiscal year 2006 net revenue from securities lending transactions was \$61,587.

Transfers In increased by \$6.3 million. An additional \$3.9 million was transferred from Special Revenue Funds and \$2.3 from Internal Service Funds.



# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended December 31, 2006

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Expenditures by Function	2006	2005	Total Percent Change
General Government	\$ 22,279,210	\$ 20,387,754	9.28%
Public Safety	110,888,728	105,122,677	5.49%
Highways and Streets	1,530,528	2,096,092	(26.98)%
Culture and Recreation	23,866,883	22,643,432	5.40%
Housing and Economic Development	-	78,483	(100.00)%
Miscellaneous	5,144,659	5,734,053	(10.28)%
Debt	7,767,476	5,078,423	52.95%
Transfers Out	2,846,479	2,810,644	1.27%
Total	<u>\$ 174,323,963</u>	<u>\$ 163,951,558</u>	6.33%

Total General Fund expenditures increased by \$10.4 million or 6.33% as compared to 2005. The majority of increases occurred in salary and fringe benefit expenditures. An additional \$5.5 million or 5.7% was spent for salaries and \$2.7 million or 9.2% was spent in fringe benefits.

General Government expenditures increased by \$1.9 million or 9.28%. Technology staff were transferred from special funds to the General Fund-Office of Technology and financed by transfers in from department special funds. Public Safety expenditures have increased by \$5.8 million, \$2.6 million in Police expenditures and \$2.8 million in Fire expenditures. The increases relate to increased staffing in both departments. The Police department's budget authorized 25 additional police officers and \$1 million in additional overtime. Fire and Safety Services budget added nine fire fighter positions and an emergency medical services chief. Culture and Recreation expenditures increased by \$1.2 million which mainly reflects normal salary and fringe increases, increased cost for operation of the Wellstone Center, and utilities. The increase in debt of \$2.7 million, or 52.95% was caused by an increase in securities lending transactions, as explained in the revenue analysis.

**Library Agency Fund:** The City's Library Agency Fund accounts for the general operations of the Saint Paul Public Library. The purpose of separating the Library from the General Fund was to increase its visibility within the community. Revenues to support the agency are from property taxes, local government aid and market value homestead credit. Revenues reported from these sources totaled \$13.4 million with expenditures of \$13.4 million. Fund balance of \$1 million from other revenue sources such as donations, grants, fees and fines were transferred to Library Agency Revenues and Grants, a separate special revenue fund. This will isolate revenues and expenditures supported by property taxes and local government aid. The fund is reporting a fund balance on December 31, 2006, of \$261,917.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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**HRA General Fund:** The HRA General Fund is the chief operating fund of the HRA. Revenues include the HRA property tax levy, fees from conduit revenue bond issues, property rentals, land sale proceeds and investment earnings. The major spending activities are for staff administration of HRA programs, maintenance of HRA properties and professional services for HRA programs and projects. The fund balance in the HRA General Fund decreased during 2006 by \$110 thousand to a total of \$8.0 million at December 31, 2006, which is healthy relative to 2006 total fund spending of \$3.1 million.

**General Debt Service Fund:** The City's General Debt Service Fund accounts for the revenues and expenditures relating to the City's general obligation debt that is supported by property tax revenues. During 2006, \$7.5 million was received in taxes and \$10.1 million in transfers for a total of \$17.6 million. The expenditures made on debt payments during 2006 totaled \$22.5 million resulting in a planned decrease in fund balance of \$4.4 million. The remaining fund balance of \$19.8 million at the end of the fiscal year is to be used for future debt service payments.

**HRA General Debt Service Fund:** The HRA General Debt Service Fund accumulates resources and pays debt service for the HRA debt that is not financed by its two enterprise funds. Debt service on the bonds is financed by property tax increments, City sales taxes, lease payments from the City and investment earnings. At December 31, 2006, the fund balance was \$20.4 million, which is reserved for future debt service. Total debt spending during 2006 was \$20.4 million, of which \$4.8 million was to retire existing bonds using refunding proceeds.

**Capital Improvement Projects Fund:** The City's Capital Improvement Projects Fund accounts for the major capital improvement projects relating to City-owned capital assets. Total expenditures reported by this fund in 2006 were \$56.4 million. The fund reported reserves for existing contracts of \$14.7 million. The total fund balance at December 31, 2006 was a negative \$3.0 million. The negative fund balance will be resolved as money is received for capital projects financed by grants upon their completion. The City's Residential Street Vitality Program, Major Sewer Repairs, Phalen Boulevard Project, Jimmy Lee Recreation Center, Dale Street Redesign and the completion of Fire Station No. 8 were among the projects with the largest amount of expenditures in 2006.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

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### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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#### Proprietary Funds

The City of Saint Paul's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**Sewer Utility Fund:** The Sewer Utility Enterprise Fund had another year of strong performance in 2006, with an unrestricted net asset balance of \$34.8 million at December 31, 2006. Operating cash is being maintained in the \$25-\$30 million range. Revenues continue their constant trend with a two percent (2.0%) increase in both storm and sanitary rates, which was recommended by the Mayor and adopted by the City Council in late 2006 for implementation January 1, 2007.

In the next couple of years the Sewer Utility Enterprise Fund anticipates a decrease in unrestricted net assets as a result of the Ford Motor Plant closing, implementation of an Inflow / Infiltration program, major reconstruction of storm sewer tunnels, and other construction repair work.

At this time the only restrictions placed on resources in the Sewer Utility Enterprise Fund are those related to outstanding debt, which are not unusual in their nature or restrictions. In March 2006, Standard & Poor's Rating Group indicated their support of Sewer Utility management by maintaining their rating of the Sewer Utility's revenue bonds to AAA and Moody's increased their rating to AA2.

**HRA Loan Enterprise Fund:** The HRA Loan Enterprise Fund accounts for loans issued and related servicing for various housing and economic development programs and projects. The Fund has unrestricted net assets totaling \$40.3 million at December 31, 2006. The assets of the Fund include loans receivable and accrued interest on these loans which are reported at \$13.1 million (net of allowance) and in many cases have long repayment terms before there will be liquidation to cash. Cash and investments are reported at \$30.0 million at December 31, 2006, which includes cash and investments restricted for the Housing 5000 Land Assembly Bonds of \$14.3 million. The Fund had an overall decrease in net assets of \$12.5 million for 2006, primarily due to the issuance of large development loans with credit risk ratings of "loss" and "forgivable".

**HRA Parking Fund:** The HRA Parking Fund accounts for the operation of HRA owned parking facilities in Saint Paul. The Fund has unrestricted net assets of \$10.5 million at December 31, 2006. Assets in the Fund include capital assets for parking facilities reported at the depreciated amount of \$91.7 million. Long-term debt used for financing the construction of the parking facilities is \$89.6 million in principal outstanding at December 31, 2006. Bonds were issued in 2005 to construct the Smith Avenue Transit Center. Proceeds of \$8.8 million from this bond issue at December 31, 2006 are awaiting future disbursement for the construction. The Fund had operating income of \$3.9 million during 2006 – a decrease of \$0.4 million from 2005.

# **CITY OF SAINT PAUL, MINNESOTA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** For Year Ended December 31, 2006

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### **GENERAL FUND BUDGETARY HIGHLIGHTS**

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The final amended budget for the General Fund includes the original adopted budget, plus any previously appropriated funds set aside for the purpose of honoring legally-incurred obligations (prior year encumbrances and commitments), plus any additional supplemental appropriations that were legislated by City Council during the year. The total original adopted financing and spending budgets including transfers was \$166.8 million, plus reserved for encumbrances carried forward of \$2.4 million, for total original appropriations of \$169.2 million. This compared to final appropriations of \$178.6 million, is \$9.4 million greater than the original budget. The 2006 final General Fund appropriations are \$11 million more than 2005 final appropriations of \$167.6 million.

The majority of the difference between the adopted and final budget was related to the following items:

- \$6.8 million additional interest expense relating to security lending transactions which was offset by interest earnings of \$6.8 million.
- \$2.1 million year end adjustment, recognizing increased tax increment revenue from a decertified district, transfers and sale of capital asset to cover additional costs associated with civil litigation, workers compensation and utility costs and summary nuisance abatement activity.

2006 actual spending including transfers out was \$174.3 million, as compared to final budget of \$178.6 million resulted in a \$4.3 million positive variance. Actual expenditures were 97.6% of the final budgeted amount. Over the past ten years, the City's actual expenditures compared to budget have averaged 96.8%.

# **CITY OF SAINT PAUL, MINNESOTA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** For Year Ended December 31, 2006

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### **CAPITAL ASSETS**

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At the end of 2006, the City had invested a total of \$1,464.6 million in capital assets (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress of the City, including the capital assets recorded for the City's internal service funds which have a depreciated value of \$10.7 million.

Major capital asset events during the current fiscal year included the following:

Public Works completed its eleventh year of the Residential Street Vitality Program (RSVP) by completing the Chatsworth/Goodrich and the Orange/Park projects in the amount of \$6.1 million. In addition, the Baker/Bellows and the Arlington/Pascal RSVP projects that spanned two years were completed in the amount of \$14.4 million

The Sewer System Rehabilitation program is now in its ninth year. The City awarded contracts for the Fairmount/Fairview Relining project in the amount of \$1.5 million, the Downtown Sewer Lining project in the amount of \$1.1 million, the Davern/Bayard Sewer Lining project in the amount of \$1.2 and the Edgerton/Orange Sewer Lining project in the amount of \$1.0 million. All projects have an estimated completion date of November 30, 2007. A contract for the rehabilitation of the St. Peter/Rondo Storm Tunnel will be awarded early in 2007 so that work can take place during the winter months.

Public Works substantially completed the construction of the third and final phase of Phalen Boulevard in 2005. Purchase of right-of-way, in the amount of \$1.9 million, took place in anticipation of the realignment of Pierce Butler Road.

The Tropical Encounter exhibit, located in the Como Park Visitor's Center, opened in the fall of 2006. This \$2.5 million exhibit is a total immersion experience which allows guests to visit an authentic neo-tropical rainforest and explore the relationships between plants and animals. Tropical Encounters is the first new exhibit at Como Park Zoo and Conservatory in over two decades, as well as the first that combines both plant and animal worlds.

The new, award-winning addition to the Saint Paul Public Library celebrated its grand opening on September 9, 2006. The Rondo Community Outreach Library is the largest branch of the Saint Paul Public Library and was completed at a cost of \$9.3 million. The innovative building is a public/private partnership which includes three floors of mixed-income housing in addition to the library facility. This library serves as a national model.

In November of 2006, the City council approved a ten-year lease agreement, with the option to purchase, for the new Western District Police Station to be constructed on the northwest corner of Hamline Avenue and St. Anthony beginning in 2007. The tentative move in date is scheduled for November 2007. The estimated purchase price of the building is approximately \$9.1 million.

Construction continued on the new Smith Avenue Transit Center. This Transit Center will consist of a 603 space parking ramp near the RiverCentre complex, plus a bus layover facility for Metro Transit busses. The Transit Center is projected to be open for operation in July 2007.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### CAPITAL ASSETS

#### CAPITAL ASSETS AT YEAR-END NET OF ACCUMULATED DEPRECIATION (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
Land	\$ 141,438	\$ 138,804	\$ 23,061	\$ 23,061	\$ 164,499	\$ 161,865	1.63%
Buildings	374,198	376,237	65,553	68,032	439,751	444,269	(1.02)%
Improvements other than Buildings	63,382	61,077	-	-	63,382	61,077	3.77%
Public Improvements	-	-	254,726	257,478	254,726	257,478	(1.07)%
Equipment	26,788	24,175	1,965	2,302	28,753	26,477	8.60%
Infrastructure	465,762	473,999	-	-	465,762	473,999	(1.74)%
Construction in Progress	37,672	22,326	10,098	2,251	47,770	24,577	94.37%
Total	<u>\$ 1,109,240</u>	<u>\$ 1,096,618</u>	<u>\$ 355,403</u>	<u>\$ 353,124</u>	<u>\$ 1,464,643</u>	<u>\$ 1,449,742</u>	1.03%

Additional information on the City of Saint Paul's capital assets can be found in Note VI.E. on pages 88-89 of this report.

# CITY OF SAINT PAUL, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2006

### LONG-TERM OBLIGATIONS

During 2006, the City issued \$30.5 million in bonds and retired/defeased \$52.8 million in bonds, resulting in \$463.2 million in bonds payable and \$71.9 million in notes payable at the end of 2006. Of the bonded debt, \$111.7 million is considered to be gross direct general property tax supported debt; considering the \$19.8 million available in the General Debt Service Fund, the net general property tax supported debt at year end was \$91.9 million or \$320 per capita.

The City's General Obligation bonds issued in 2006 continued their Aa2 rating from Moody's Investors Service, Inc. and AAA rating from Standard & Poor's Corporation. The Sewer Revenue bonds were upgraded from Aa3 to Aa2 by Moody's and were reaffirmed at AAA by Standard and Poor's.

### OUTSTANDING DEBT GENERAL OBLIGATION, REVENUE, LEASE REVENUE AND SALES TAX NOTES AND BONDS (in thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
General Obligation Bonds	\$ 160,745	\$ 159,285	\$ 37,980	\$ 39,485	\$ 198,725	\$ 198,770	(0.02)%
Revenue Bonds	-	-	27,830	27,690	27,830	27,690	0.51%
Sales Tax Revenue Bonds	66,280	67,750	-	-	66,280	67,750	(2.17)%
HRA Tax Increment Revenue Bonds	53,931	62,170	-	-	53,931	62,170	(13.25)%
HRA Parking Facilities Revenue Bonds	-	-	53,795	55,420	53,795	55,420	(2.93)%
HRA Loan Enterprise Revenue Bonds	-	-	12,455	21,830	12,455	21,830	(42.95)%
HRA Sales Tax Revenue Bonds	43,585	44,895	-	-	43,585	44,895	(2.92)%
HRA Lease Revenue Bonds	6,570	6,870	-	-	6,570	6,870	(4.37)%
Revenue Notes	42,951	44,844	14,911	15,825	57,862	60,669	(4.63)%
HRA Revenue Notes	12,820	8,580	1,225	3,090	14,045	11,670	20.35%
Total	<u>\$ 386,882</u>	<u>\$ 394,394</u>	<u>\$ 148,196</u>	<u>\$ 163,340</u>	<u>\$ 535,078</u>	<u>\$ 557,734</u>	(4.06)%

Additional information on the City of Saint Paul's long-term obligations can be found in Note VI.G on pages 94-116 of this report.

# **CITY OF SAINT PAUL, MINNESOTA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** For Year Ended December 31, 2006

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### **CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS**

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#### **Financial Outlook**

The City's budget, and in particular the General, Library Agency and General Debt Service funds, remain heavily influenced by state budget decisions of previous years to reduce Local Government Aid payments, and subsequent City budget management decisions which, to date, have not completely restored an ongoing balance between annual operating revenues and expenditures.

State aid payments are the single largest source of financing for the City's General Fund budget. In the 2007 adopted budget, state aid including Local Government Aid (LGA-the largest program), supported 37% of total spending (by comparison, property taxes provide 26% of financing in 2007). In the 2003 legislative session, the state resolved its budget deficit in part by sharply reducing aid payments to local governments. In Saint Paul, this has the effect of reducing LGA transfers for 2007 by \$16 million below the originally-certified 2003 level.

Since 2003, permanent revenue and spending adjustments have not completely offset the loss of state aid payments. Despite a partial restoration of LGA payments from the state for 2006, and a substantial increase (9%) in the city's property tax levy for 2007, the combined state aid and local tax levy (which together comprise nearly two-thirds of total general fund revenues) remain about \$8 million lower in 2007 than they were in the 2003 budget. During this period City budgets came to rely increasingly on one-time financing and spending measures to balance the annual operating budget.

The 2007 budget proposed by the Mayor identified a goal of restoring structural balance to the general operating budget by 2010, through measured steps to increase permanent revenues more rapidly and adopt management measures (such as service delivery system restructurings and increased attention to internal cost recovery from other funds) to contain overall spending growth. The 2007 adopted budget made significant progress in this regard, adding approximately \$11 million in new budgeted general fund revenues, primarily through a significant increase in the property tax levy and in energy franchise fees.

The financial outlook for the City for 2008 and future years will continue to be influenced primarily by state policymakers' decisions on LGA funding levels (as of May 31, a bill providing an additional \$7 million in state aid for Saint Paul in 2008 had been passed by the Legislature but vetoed by the Governor), and City officials' ability to balance competing budget needs: on one hand, the need for continued growth in local revenues (which would need to come primarily from property tax levies in the absence of state assistance); balanced against citizens' concerns about both the current level of property taxation, and preserving the scope and quality of municipal services (and increasing them, in the case of public safety activities).

#### **Employment Outlook**

The 2006 annual average unemployment rate for the City of Saint Paul was reported by the Minnesota Department of Employment and Economic Development at 4.1%. This compares to a state unemployment rate of 4% and a U.S. average rate of 4.6%. Saint Paul has a balanced, diversified employment base with no single industry sector dominating. Health care and social assistance, trade, transportation, utilities, and government (local, state and federal combined) each supplied more than 10% of total employment in 2006.

The third quarter 2006 annual average wage in Saint Paul was \$44,200, compared to \$46,332 in the metro area and \$40,872 in Minnesota.



## **CITY OF SAINT PAUL, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** For Year Ended December 31, 2006

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#### **REQUESTS FOR INFORMATION**

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The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Office of Financial Services, Attn: Lori Lee, at 15 W. Kellogg Blvd., Room 700; Saint Paul, Minnesota 55102, call 651-266-8822, or e-mail [lori.lee@ci.stpaul.mn.us](mailto:lori.lee@ci.stpaul.mn.us).

General information relating to the City of Saint Paul, Minnesota, can be found at the City's website, [www.stpaul.gov](http://www.stpaul.gov).

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